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1. The break in Anglo-Iranian diplomatic relations injects entirely new and potentially dangerous factors into an already sensitive situation. These major factors are:

a. International:

- 1) The diplomatic breach places new obstacles in the path of a possible settlement of the oil controversy. Without oil revenue or foreign subsidization, Iran becomes more vulnerable to communist pressure.
- 2) In the absence of the British, most of the burden of keeping Iran outside the Iron Curtain falls upon the United States. Thus, the United States is jockeyed into a position of bolstering Iranian economy or inheriting the British position as number one whipping boy for Iranian political leaders.
- 3) The possibility that reduction in British trade, backed by a British economic blockade, will lead to increases in trade agreements with the Soviet Union and its satellites, such as those agreements now existing or being negotiated with Czechoslovakia and Poland. By such trade relations of sufficient number, Iran might be drawn so close to the Soviet bloc in common interests that political seduction would become inevitable.

b. Internal:

- 1) The Tudeh Party is biding its time, concentrating on conversion of the peasants, harassing the landlords, increasing propaganda, and awaiting a propitious moment for a coup or, more likely, tactical alliance with

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disgruntled factions of the National Front in which it would expect to capture important Government posts and eventually to gain power by parliamentary means.

- 2) Since 21 July 1952, Prime Minister Mossadeq has succeeded in consolidating his position and is now in the strongest position of his career, having:
 - a) eliminated or isolated the political leaders opposed to him;
 - b) gained full control of the Shah and neutralized the power of the Royal Court;
 - c) brought the Army under his control and direction by replacing and retiring the officers whom he could not control; and
 - d) utilized the radio and the press for his own propaganda purposes.

This is the first time in recent Iranian history that any one leader has succeeded in gaining control of all the major sources of power.

- 3) Mullah Kashani's prestige is materially weakened as the result of Mossadeq's move in arresting some of the alleged members of the conspiracy, reportedly led by General Fazollah Zahedi. This move is contributing to the further breakdown of the National Front to a point where Mossadeq is assuming sole mastery of the most influential factions.
- 4) By already-employed clever manipulation of accounts and currency distribution and production, Mossadeq may stave off internal financial crisis for several months while seeking new oil markets and/or financial aid. In the meantime, Mossadeq may engage in constructive moves designed to improve public morale, and attempt to influence the United States to change its policy toward Iran, allowing for increased financial help and encouragement of United States firms to buy Iranian oil.

2. Conclusions:

Mossadeq is presently in complete control of the situation and is believed to be sufficiently strong to block any attempt to unseat him or to take over the Government by intrigue or armed attack (by the Tudeh Party or tribal groups). No political leader of sufficient stature is now in sight to challenge him. The United States' position in Iran, as the result of British expulsion, may be slightly strengthened since Iran traditionally has employed the political tactic of playing off one major power against another. Also, the United States continues to be the Iranian hope for financial aid and an eventual channel for reaching some solution to the oil question. This, however, will not prevent the United States from becoming a political scapegoat as the situation deteriorates further. In the event of Mossadeq's death, the entire situation might become so chaotic that the Tudeh would be tempted to take a chance on attempting to seize control of the Government, despite present indications that the Tudeh is not yet ready to make an active bid for such control.

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